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FOR THE VICE PRESIDENT FROM THE AMBASSADOR

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TAGS: [PREL](#) [PGOV](#) [IT](#)
SUBJECT: SCENESETTER FOR THE VICE PRESIDENT'S SEPTEMBER
4-10 TRIP TO ITALY

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Classified By: Ambassador Ronald P. Spogli for reasons 1.4 (b) and (d).

¶1. (C/NF) Summary. Mr. Vice President, Silvio Berlusconi's government has worked hard over its first months in office to regain its position as our best ally in continental Europe. Your September 4-10 visit comes as the Berlusconi government reconvenes for what promises to be an important legislative session. Although it has a strong electoral mandate, the government needs to take decisive steps to revitalize the economy and reduce budget deficits. Your visit presents an opportunity to build upon the President's June visit by encouraging the Berlusconi government to remain focused on much-needed economic and institutional reforms, while maintaining the defense capabilities and commitments that are essential to bilateral and NATO interests.

¶2. (C/NF) Berlusconi's government has taken pains to work with us, but mandatory budget cuts mean we will need to coordinate on the specifics. Berlusconi relaxed geographic caveats for Italian ISAF forces, but we are monitoring progress on bringing promised police and border guard trainers into the field. Berlusconi and Foreign Minister Frattini have been extremely cooperative on Iran, even if Italy has not been invited to join the P5 1 as they hoped. Coordination has been very good on Lebanon and Israel, though we have not yet made the same type of progress on trans-Atlantic relations with Russia. You will also be meeting President Giorgio Napolitano, who continues to exercise his authority with conscientiousness and to be a stabilizing force in the government -- even when it makes him unpopular among his colleagues on the center-left. End Summary.

Berlusconi Government Embarks on Challenging Autumn
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¶3. (C/NF) Over his first hundred days in office, Berlusconi delivered concrete results on election promises. His

coalition's solid majorities in both chambers of parliament allowed the swift adoption of wide-ranging laws on domestic security and the budget. Berlusconi intends to pass significant judicial reforms and devolve more fiscal powers to the regions between now and the end of the year. Politicians of all stripes agree that deep institutional reform is essential. But initial hopes of cross-aisle cooperation have faded, as the weakened opposition has signaled its intent to protest budget cuts and changes to the dysfunctional and deeply politicized judicial system.

An Ally in Economic Decline -- We Can Help Change This

14. (SBU) A G8 member and one of the world's largest economies, Italy's influence is threatened by perennially slow economic growth. Its economy has grown a full percentage point slower than the EU average this decade. A burdensome bureaucracy, corruption, organized crime, a low birth rate, severe labor market rigidity, a weak educational system, and a business culture that rewards connections instead of merit are all factors contributing to stagnation - a condition that bedeviled both the Prodi government and the Berlusconi government that preceded it. The slow growth that results from this mess seriously threatens Italy's ability to be the kind of ""boots on the ground"" ally that we want it to be.

15. (U) To address this economic threat to our alliance, in 2006 the Embassy launched the Partnership for Growth, an ambitious, multi-faceted effort to spur economic dynamism by helping move research to market, grow risk capital markets, support innovation by strengthening intellectual property rights, and create Italian entrepreneurial role models. Through our Fulbright Business Exchange and Student Training (BEST) scholarship program we send young Italian scientist-entrepreneurs to Silicon Valley for six months of total immersion in the U.S. entrepreneurial environment. They come back energized, ready to do in their country what we have done in ours. Of particular note, almost all costs are covered by donations from Italian companies. We have also brought many of the top minds in U.S. innovation to Italy, to share their ideas on how countries can make progress. We have created dozens of new, web-based avenues for communication and idea-sharing between the U.S. and Italy. And through more than 200 events over the last two years, we have made the Italian elite understand what needs to be done to put their country on the path to prosperity.

16. (U) We have made tremendous progress. We have strengthened the hands of those Italians who want to move their country forward, and in doing so we have greatly improved Italian perceptions of the United States. I am happy to report that because of our Partnership for Growth, in Italy, the words ""innovation"" ""growth"" and ""entrepreneurship"" are now usually associated with the United States of America.

Maintaining a Common Stand on Iran

17. (S/NF) We have made great advances in moving Italy solidly into our camp on Iran. The Berlusconi government has cooperated fully on EU efforts to apply additional financial measures against Tehran, despite Italy's disappointment with not being included in the P5-plus-1. Their concerns have been eased somewhat by Quint pre-meeting consultations, but they worry that this mechanism is too informal and ad hoc to keep them properly informed. Italian adherence to sanctions has always been complicated by their substantial commercial interests in Iran, but we will continue to monitor their economic activities and discourage further energy sector investments. Sustaining Italian support for sanctions and the P5-plus-1 negotiations may depend on keeping up early and high-level dialogue.

Not Seeing Eye-To-Eye on Russia

18. (S/NF) Italy's relationship with Russia could become a

point of friction if Italy continues to insist that Russia's demands on Kosovo, Georgia, Ukraine and Missile Defense get a fair hearing in transatlantic and international fora. We have advised them that taking a soft line on Russian actions against Georgia could damage their credibility. We have also become concerned by a growing sympathy for Medvedev's calls for a new security framework to supersede NATO, OSCE, and CFE. You can let Berlusconi know that public endorsement of Russia's plans only serves to weaken the alliance.

¶9. (S/NF) The presence of a strong communist party and a history of leftist governments in Italy gave Russia a degree of influence not seen in any other Western European country. More recently, a commercial dependence on Russia, particularly in the energy sector, and a close personal relationship between Putin and Berlusconi based on mutual commercial interests and Berlusconi's preference for dealing with assertive world leaders appear to be greater motivating factors in Italy's relations with Russia.

Need for Energy Diversification
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¶10. (C/NF) Compared to EU countries further north, Italy is less dependent on Russia for energy, especially natural gas. Geography gives Italy access to more resources than other EU countries, including North African energy. There are already natural gas pipelines from Libya and Algeria to Italy. An Algeria-Sardinia-Italy pipeline is being planned. While Italy's North African connections seem to be good news in terms of energy security, ENI has recently given Gazprom access to North African energy resources, in exchange for increased access to Siberian gas fields. Italy hopes to make increased use of Liquid Natural Gas, but local environmental concerns have slowed the construction of regasification plants. The GOI claims to share our concerns, but in fact takes comfort in what it perceives to be its special relationship with Russia. Italy's largest energy company (ENI -- one-third owned by the GOI) is now a major partner of Russia's Gazprom, and is building strategically important pipelines for Gazprom in both the Black Sea and the Baltic. Many believe that ENI actions in furtherance of its own commercial goals are also helping Russia tighten its grip on Western Europe's energy supply.

¶11. (C/NF) At the same time, Italy is taking steps to diversify its sources of energy. Italy, through the Edison Company, is a key player in the Turkey-Greece-Italy (TGI) pipeline. The availability of Azeri natural gas is a key concern, and the EU's Nabucco pipeline is sometimes seen by the Italians as a competitor for this gas. Reports that Russia is courting Azerbaijan in an attempt to buy all of their gas is a major concern for Italy, since it would mean the end of TGI.

Basing and Security Cooperation:
A Cornerstone of the Relationship
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¶12. (C/NF) Italy remains our most important European ally for projecting military power into the Mediterranean, Middle East and North Africa. We have 14,000 U.S. military and DOD civilian personnel and 16,000 of their family members on five Italian bases. The GOI has approved the expansion of the base at Vicenza to consolidate the 173rd Airborne and the deployment of the USAF Global Hawk UAV in Sicily. Legal challenges to the Vicenza expansion have been dismissed, and both projects are on track. COESPU (Center of Excellence for Stability Police Units), the peacekeeping training center, has graduated over 1,600 officers from 14 countries and has just finished training peacekeepers headed to Darfur. We are now in discussions on locating component commands for AFRICOM and Italy has signaled that it would like to host the overall HQ.

Seeking Follow-Through in Afghanistan
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¶13. (C/NF) During the President's June visit, Berlusconi agreed to loosen geographic caveats on Italian ISAF troops and to send approximately 30 additional Carabinieri trainers to support the ANCOF program. Control of Kabul has passed from Italy to France, and Italy intends to transfer a portion of their 1,200 Kabul-based troops to the Herat district. Because of budget constraints and large troop commitments in Lebanon and the Balkans, Italy is likely to reduce the number of troops stationed in Afghanistan. We would like to see Italy maintain as many troops as possible in Afghanistan and to provide more security training and military hardware.

Stronger Support for Israel

¶14. (C/NF) Berlusconi and Frattini proudly and publicly declare their support for Israel, refuse to consider Hamas a potentially constructive partner, and support the formation of an independent, democratic Palestinian state. Frattini pledged additional aid to train and equip Palestinian police, but was unable to do so due to budgetary constraints.

Lebanon and Syria: Consultation and Cooperation

¶15. (C) Italy has consistently offered political, financial and military support to Lebanon, and is the single largest contributor of troops to UNIFIL (over 2,500), which is currently under the command of an Italian general. Berlusconi pledged to maintain and strengthen UNIFIL and FM Frattini joined his Spanish and German counterparts in calling for Syria to halt its uncooperative approach to Lebanon. You can encourage Italy to maintain this engagement, and to join in our efforts to improve security along the Lebanon-Syria border.

Expanding Military Cooperation In the Face of Budget Cuts

¶16. (C/NF) The Italian MOD signaled that because of budget constraints, it may not meet its commitment to pay for 300 flight hours in the NATO SAC C-17 program. After considerable pressure from SECDEF, the NATO SYG and myself, Italy agreed to postpone their decision until December. We are, however, encouraging them to confirm their participation by mid-September. Your visit is an excellent opportunity to remind them of the importance of this program to the Alliance.

¶17. (C) Berlusconi is likely to ask for your help on Finmeccanica's acquisition of U.S. defense contractor DRS Technologies, a deal worth \$5.2 billion. The Italian government would like to see DRS obtain a Special Security Agreement from DOD, and will encourage a favorable decision by the CFIUS. A recent announcement of intentions by Finmeccanica and Russian Technologies, a Russian para-statal industrial and defense conglomerate, to enter into a cooperation agreement has raised some red flags by CFIUS. Berlusconi may mention Italy's contributions (2 billion euros) to the Joint Strike Fighter program. He may also express interest in the USAF Tanker program rebid; the Italian firm Alenia Aeronautica has partnered with Boeing on the KC767.

President Napolitano Has Limited Power, Considerable Influence

¶18. (C) You will also be meeting with President Giorgio Napolitano. Although his constitutional powers are limited, Napolitano exercises his authority evenhandedly, evidenced by the praise and criticism he receives from both the political left and right. During the collapse of the Prodi government in January 2008, Napolitano was a calming presence in the midst of a political maelstrom. Since Berlusconi took office, Napolitano -- whose roots are in the former Communist Party -- has been careful to tread a legally sound middle ground. He signed the controversial immunity law because it avoids the problems in earlier similar legislation, but also

warned the Berlusconi government not to abuse its decree powers and instead to hold full debates on new legislation in Parliament. President Napolitano's seven-year term expires in 2013.

Comment

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¶19. (C/NF) Mr. Vice President, Italy has great potential to become an even closer partner and ally in addressing some of our most important global interests. But the country is at a critical juncture, and could be faced with institutional and economic failure if difficult domestic choices are not made. Italy's ability to partner with the U.S. will depend above all on the revival of its economy. Your discussions with Berlusconi and key leaders can help this administration to maintain focus and direction on international issues at a point when their interests could be completely absorbed by domestic concerns.

¶20. (U) We are pleased that you are coming to Italy at this time. I am certain that your visit will make an already robust relationship even stronger.
SPOGLI